## HONOLULU 20 YEARS BEHIND THE TIMES IN ACCOUNTING FOR ITS MUNICIPAL FUNDS

If Private Corporation Handled Its Money the Way City and County Does, It Would Be Bankrupt in No Time as It Has No Check on Expenditures and Income, Rotarians Are Told By record in favor of the adoption of Local Expert

municipal funds. If modern accounting methods were applied to the city and county government much incompetency would no substituted for efficiency and waste for money

Heads of departments in the city government have been charged . with complicated business responsibilities without provision for current knowledge of detail or of results. Boards of supervisors have . granted appropriations without the means of informing themselves as to the city's needs.

Notwithstanding the legal checks that have been placed around. the expenditure of local funds, recent happenings have shown that . these safeguards have been repeatedly ignored under the plea of pub-

A system of cost comparisons is needed. By charting the departmental costs of the city and county, budget day will lose much of its terrors as a period of abstruce commutations and voluminous

These are the interesting points brought out by II. Gooding Field, etc. pert statistician, in a paper read before the Honolulu Rotary Club, Thurday noon, August 23. The paper was entitled "The Conservation of Public Funds," and in it Mr. Field made a comparison between a few of the

"It will be impossible, in the limited, somewhat as follows: time at our disposal, to cover all the for the beginning of the fiscal year phases of so broad and important a the mayor or chief financial officer funds. I shall, however, endeavor to or office, to prepare a detailed esti- law. make a comparison between a few of mate of the amounts of money that the public and private financial and administrative problems, and to show, also, that if modern accounting methcounty government instead of the present mere rules of thumb, much fice's would be substituted for effici-

corporation differ widely from those sort of judgment must be made. The superintendent of a municipal water body for action. of a private water works. The same authorized for expenditure has been hospitals, fire stations, construction, have been charged with the executive direction of diverse, technical and complex branches of business, with little or no provision for current knowlto be absolutely necessary to the exermunicipality of the greatest possible that these safeguards have been re formation of what has happened in value as a basis for efficient adminis- peatedly ignored under the plea of the past. tration, it should be collected, classified and summarized in such a maner that results may be readily available to a busy man. We are absolutey without such information in any of our branches of government in the territory.

"Let us consider the methods by which local governmental revenues ceived but scant attention from those are raised. A time honored custom of municipalities and other govern- ly, the taxpayers. If we consider ment bodies is that no money be spent that the business of a municipal corfor any purpose whatever unless the poration is primarily to perform cerexpenditure has been first authorized. | tain kinds of service for the benefit This means that revenues and other of the community as a whole, and that unds must be appropriated for spe- the cost of this service must be borne sific purposes by the proper authori- by the community, this indifference ies. The method of authorizing ex- on the part of the taxpayers to the penditure and appropriating funds is disbursing of their own money be sually provided for in the city's char- comes more inexplicable. er or by state laws. The usual procedure in appropriating revenues is

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--- H. G. Field to Rotary Club

he will require to meet the expendi

ture of his department for the ensu-

ing year. In some cities the esti-

mates are examined by comparison

public policy.

"It will be seen that control over

the raising of public funds has been

persistently demanded by our law

makers, despite the fact that viola-

tions of the statute have been al

years, the fustification for the ex-

who should be most interested, name-

The accounting methods of admin-

istrative organizations like a city gov-

ernment, which, until the census bu-

reau uniform classification of revenues and expenditures was compiled, were

usually pretty bad, but excuse can be

found in the fact that the system in

use is likely to be traditional. In

the old days of administrative gov-

ernment in the United States, the financial operations of the municipality

were few. The city needed to rec-

ognize practically nothing more than

the responsibility of the town treas-

urer. So long as the books showed

but imperative mainterance and

of a new fire engine and the cost of

painting an old one, or between the

cost of municipal operations was due

have been quite as often due to in-

penditure of public moneys has re-

cre-is of operation in private business, computations of voluminous figures. resulting from increasing competition, was reflected in a popular demand and outflow of tach tire 2. lities Since 1991 this demand has tradily increased, antil today there ment, however, must have a not a progressive cit, on the main jed with one of revenue and exten land where the taxpayers do not in Each statement has a se ita's ' sist on such information, and the tion to perform. The letter that a or anizations in the United States and anada have placed themselves on illiborm accounts and reports, and a tions are on record to the same of-Indiena, at the session of her legisla, greater deprovements in ture in 1909 Jassed an act following ture. The inventories closely the Ohio law, and New York, nually taken of lands, building lowa, Washington West Virgina, Wis equipment and which do not at consin, Rhode Island and other states ont, serve any juriage taget at V have enacted similar legislation. I a physical valuation of effect is for the territory of Hawaii, and, cluded in a balance short Waich, after several months of col- for depreciation should be sela ocation with the members of the which are very important lems Honolulu Chamber of Commerce com- which are not considered in the sitditter on trunicipal finance, received accounting system S the unanimous indorsement of the come imperative in view of

public funds, it becomes imperative with departmental records, as they should be, but in most cases this is counting methods designed with these not the case. The financial officer objects in view has long been recogalso prepares an estimate of the rev | nized in private business. The need enues from sources other than general is even greater in public business. taxes that will probably be received "While the financial problem and during the ensuing year, basing the fice are limited, and who, to be effi the operative policy of a municipal estimate on the experience of pre- cient must be able quickly to grasp vious years. These estimates of ex- each problem in hand, cannot match of a private corporation, the adminis- penditures and revenues which con- the efficiency of private business in trative problem is the same. The same stitute what is coming to be called they are uninformed. What informa-"tent. e budgets," are then submit tion, therefore, does the administrasame considerations are before the ted to the board, or other authorizing tor need? What does the head of tht street department, for instance, he need to know about the results of is true of the management of schools, determined upon, the amount of es to manage his department more effitimated revenues is deducted there ciently and economically next year? the cleaning of streets, etc. Reads of from in order to ascertain what What information does the board of iepartments in our county government amount must be raised by general supervisors need in order to act upon taxation. This amount, divided by the estimates of future expenditures, and total assessed valuation of property, to pass upon questions of financia; gives the tax rate. The funds thus policy? The answers to these and appropriated usually provide only for similar questions in all business transmeeting current operating and main- actions, be they municipal, corporate edge of detail or of results. Boards tenance expenses of the city. Funds or private, will be found in a correct of supervisors have been responsible for permanent improvements and system of expense accounting, the for granting appropriations without other property which has a continu- value of which lies in making facts the means of previously informing ing value are generally raised by sell- readily available by means of reports themselves with respect to corporate ing bonds. A legal requirement that and in enabling officials to make comneeds. Auditors have been auditing is common in all cities is that no lia- parisons which lead to a study of the claims without full evidence to prove bilities shall be incurred and no reasons for high costs, if they are money spent except pursuant to the high-in short, to ascertain where liscal concerns of our public corpora- appropriation ordinances and the savings may be effected; which emtion without, in many instances, the funds so expended must not exceed ployes have been efficient; which instruments which have been found fixed amounts set aside for the spe functions of our local government cific purposes. Notwithstanding the should be expanded, and which may cise of intelligent discretion in private legal checks which have been placed be restricted. In other words, every business. To make the experience around the expenditure of our local administrative policy and every future growing out of the operation of a funds, recent happenings have shown act should be preceded by exact in-

"The present method of reporting the cash expenses of the city and county of Honolulu by functions-the classification of which is deserving of much credit and shows a marked improvement over the accounting methods by the city auditor which lowed to go unpunished; until recent were in vogue five years ago-do not tell the story of municipal costs. We are 20 years behind the times in our accounting of municipal funds. With us at present, cash is practically the only asset considered in the system. it reminds me of the reference to such an antiquated method by Professor Hatfield in his work in "Modern Accounting, Its Principles and Some Of Its Problems," in which he states that the primative form of such accounting is the slate on which the village tapster "chalks up the P's and Q's" consumed by his regular pat-

the cost of specific units of serkeep our highways in repair is best square vard. Data showing comparisons with 'averages' and percentages should be developed in our local govpublished with the periodical financ's statements of the city and count auditor. The significance of percent age ratios is more readily understood than that of a gross sum, as the perthat he had accounted for every cent centage always requires a compari received the town was satisfied. As son. For example, the percentage the municipal activity grew, paving, ratio which the expenses of each func sewage, etc., were gradually added on tion of our city government bear to a small scale. The question then the total cost of government tells a arose whether this or that administ much clearer story than do the tration of town affairs was the more amounts expressed in dollars and economical. Each administration told cents, for the reason that the mind itself that it must show a low cost, crosps relative figures more readily It therefore, when possible, neglected than inclated facts. The reduction to allow for depreciation or for any of reachts to averages also assists the showed expenditure at its lowest prehend the problems of which the basis. When, on the other hand, con- new restonsible, as well as enabling suitable than Tyree's Antisep ditions reached a point at which re- the board of supervisors to better newals became necessary, the admin- arrive at standards for budget makistration in charge pointed to them inc.

as really charges upon the past, or a means little to the public to intreated them as capital investments, form them, for instance, that it costs thus shifting the odium of increased the city and county \$25,000 to operate in discuss of the much me cost. Most of the smaller cities make the carbage department for the year showed an increase of, say, \$2000 cost of a new boiler and the wases for 1915 over 1916. If the total exof a man to run it. The result of all penses, cash and otherwise, were rethis was that in most cities no cor- duced to the cost of removal of garrect figures of actual cost have been bage, per truel; load, by months and published. It would be hardly fair years, a working pasis of comparison to say that the failure to report actual would at once be obtained.

"Although it might be somewhat entirely to lack of courage; it might difficult to reduce all municipal activities to a unit cost basis, the difference or to ignorance of the real head of a department who is keen on situation. When, a few years ago, his job will readily see what constitute the public began to agitate the ques- controlling factors in his entered at tion of public as compared with pri- count, and he will be able to work vate gas works, water works, tele out a system of cost comparisons U.S.A.

that statistics were essential, and for the small additional or they in set of the statistics were essential, and for the small additional or they in set of the statistics were essential, and for the small additional or they in set of the set of the statistics were essential, and for the small additional or they in set of the statistics were essential, and for the small additional or they in set of the statistics were essential, and for the small additional or they in set of the statistics were essential, and for the small additional or they in set of the statistics were essential, and for the small additional or they in set of the statistics were essential, and for the small additional or they in set of the statistics were essential, and for the small additional or they in set of the statistics were essential, and for the small additional or they in set of the statistics were essential. ures of municipal cost accounts, if departmental costs of the city and county, budget day will lose much of The urgent necessity for reliable its terrors as a period of abstruse

"A state sent of owing the daily of r deta which would show, by compared us, understoombly, a street sons, the operating costs of mur since only by presenting some and meliar and other governmental actiment can a treasurer return a proper account of his trust movement has spread to Canada, Civic | counting of the treasurer, w.l.-: 1'should be the central office of very large number of state organiza- cial and accounting control envisages

"Honolulu has passed the village and by the provisions of a law passed stage of development, and large sums in ite 2 established a department for of money have been spent in perman the insie (ion and supervision of the ent improvements and beautifying the accounts of its cities, counties, town. | city. The 1917 Legisciat to has build ships, villages and school districts, it possible, with the increased tax Massachusetts followed suit in 1906, revenue to the city and contains, the was resonable for the drafting of ent improvements of the characteristics a law along the lines of the Ohio law county, should be so looked and and the should Chamber. This much needed and prog- sustained to municipal paths, the said ressive measure-which was not a ery, equipment and other tixed as-ermatter of party government, but bet- through wear and tear, examples and ter government, aiming at the conser- obsolescence. These project and vation of our public finance, passed counts, furthermore, if since it is the laterally after the agreement second reading in the 1915 territorial a balance sheet would be constant as legislature, but was thrown in the minders that permit nent situation discard, and eventually died a forced buildings, etc., owned by the any and subject as the conservation of public requests the head of each department death before it was allowed to become county should be making good account to of themselves.

> "Let us imagine, if possible, a private corporation watch, for our jurposes we shall call Honolulu & Co., having property holdings of the value of \$110,000,000, and expending in the ..... 12 years of its doing business the Samplard (a) sum of \$10,570,776.89, in all its cor- chough he does not sum had been confined solely to a the war. gregating \$1,010,699,20, which had been time promises for relief. made for permanent improvements to The oil companies have been units plant had not been recorded, other a sle to sumply the city and county than that entries had been made on of money had been authorized by its cerned about the high cost of runrectors had failed to insist or had tion of that most important of all financial statements-the chart from filling any ne or ters for oil, extenwhich all financial courses are laid- | siwe road construction in the future the balance sheet, so that they could will be hindered. At present there weigh the total assets of the corpora- seems to be no hope for relief of tion against the total liabilities. The the situation question might well be asked: How long, in the course of human events, would the available assets hold out to keep the concern from bankruptcy proceedings. Substituting the private corporation of Honolulu & Co for the public corporation of the city and county of Honolulu, and we have a very conservative outline of the manner in which the financial affairs of our local government are conducted. With a municipality, there is no pan acea for business ills, such as the Laura Wight, who recently returned a private corporation; with the city Mrs. Elizabeth Kinau Wilder, has and county, it is a case of raising the tax rate to meet deficits, with the tenant in the United States army.

of the financial situation in that coungovernment in 1905 to 1913. I outlined system for that county. After three board of supervisors on the 10 inst sum of \$500 for the installation of a cost system. My report to the Ho nolulu Chamber of Commerce in 1912 emphasized the importance of a cost system for the city and county of Honolulu. No action has yet been taken to provide such a check on our

L. C. HOWLAND, teacher of Punahou Academy, is spending a short vacation on Maui. He will return be fore school opens next month.

For benefit of the Red Cross work Mme. Cleo will give palm readings all day and evening, Saturday, Sept. Donations from 50 cents or more. Parlors 1079 Alakea street .- Adv.

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porate activities. Suppose also that he any immediate shortage, does not the company's accounting methods think that the surply of oil vill be for the disbursement of so large a restored to what it was previous to

out, with no attempt, at any time, to same situation as the other companies show the financial status of the cen- and vesterday men in its office excern; further, that expenditures, ag- pressed a like pessimistic view of fu-

ticen applied.

Recause the oil companies are not

Samuel Gerrit Wight, son of Mrs.

Lieut. Wight was born and reare. "In my report to the Hawaii County | McKinley high school, the class of 1909. In 1913 he graduated from the University of California, and since then has been with the Riversid-Cement works.

> At the declaration of war he ap plied for admission to the training comp at the Presidio, and shortly after is acceptance was ordered to Ameri can Lake, Washington

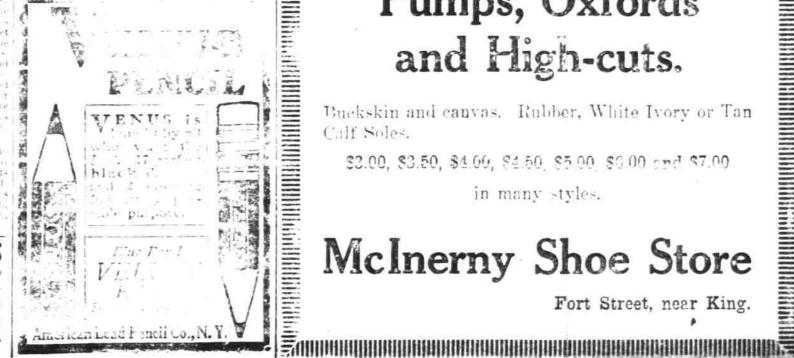
Lie.: Wight's brother, Frank, also known , ere, is still on the battleship st. Louis, and has been recommended

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